

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

DOCKET NO. 2012-296-E - ORDER NO. 2012-646

AUGUST 22, 2012

IN RE: Petition of Lockhart Power Company for            ) ORDER  
Approval to Book Revenues in Accordance            )  
with Schedule O Power Adjustment Clause            )

This matter comes before the Public Service Commission of South Carolina on the Petition of Lockhart Power Company ("Lockhart" or the "Company") for approval to book revenues in accordance with Lockhart's Commission-approved Schedule O Power Adjustment Clause. The revenues in question are revenues associated with the sale of output from the Lower Pacolet Hydroelectric plant to Duke Energy Carolinas, LLC ("Duke") via a wholesale contract. The Company contends that allowing the booking of revenues in this manner is consistent with the Commission's treatment of similar revenues for Lockhart and will serve the public interest.

Lockhart was incorporated in 1912 by an Act of the South Carolina legislature. Its service area spans parts of five counties: Union, Spartanburg, Cherokee, Chester and York. It serves approximately 6,300 customers, through the effort of 48 employees. In addition, the Company serves one native load wholesale customer, the City of Union. Today, Lockhart has 18 MW of hydroelectric generation capacity on the Broad River in Lockhart, South Carolina, which is also the location of its business offices. The hydroelectric generation typically satisfies 20-25% of the Company's load. The Company also owns a 0.8

MW hydroelectric facility, and a 5.5 MW diesel peaking generation station both located in Pacolet, South Carolina, a 7.3 MW diesel peaking generation station in Union, SC, and a 1.6 MW landfill gas-to-power facility in Wellford, SC. The remainder of the power needed to serve the Company's customers is purchased from Duke. In 2011, the Commission granted Lockhart permission to adjust its rates. See Commission Order No. 2011-564 in Docket No. 2010-181-E. The Commission also revised Lockhart's Schedule O Power Adjustment Clause to incorporate costs related to fuel and credits for off-system sales associated with Lockhart's Wellford Landfill Gas generator and any other future Commission-approved generation projects. *See id.* at p. 2, p. 6, and Attachment D to Exhibit 1. Lockhart's revised Schedule O Power Adjustment Clause provides in part:

Wholesale Power Sales

When Lockhart requests and subsequently receives South Carolina Public Service Commission approval for a specific generation project to be included in its cost of service, the sales of such generation, if made off-system in the wholesale market, will be credited as an offset to the monthly power cost.

The Lower Pacolet Hydro plant located in Pacolet, South Carolina, was owned by Milliken & Company for many decades before it was purchased by Lockhart in 2007. The plant was placed in Lockhart's rate base as part of its 2007 rate case (Docket 2007-33-E). Generation from the plant is used to directly serve Lockhart's customers, thereby offsetting otherwise necessary power purchases from Duke. The value of this generation to Lockhart's customers is therefore the avoided cost of buying power from Duke. However, there is operational risk associated with the value of this generated power, for example, if there is insufficient water to generate during a peak period.

There is an opportunity for Lockhart to sell the Lower Pacolet Hydroelectric plant generation to Duke for its use to help meet certain North Carolina renewable energy portfolio standard requirements (“REPS”). Since there are no South Carolina or federal REPS, this opportunity represents the best method for Lockhart to obtain economic value for the renewable energy attributes associated with the “small hydro” project. Lockhart has registered the project in North Carolina as a “New Renewable Energy Facility,” and has negotiated contractual terms with Duke. Duke is willing to offer a premium for the generation, plus renewable energy credit attributes that are well in excess of the current economic value Lockhart’s customers receive for the generation with less operating risk to Lockhart’s customers. Lockhart would flow the entire amount of revenue from the Duke contract to its customers via its Schedule O Power Adjustment Clause, which provides for such wholesale revenue flow-through, once approval from the Commission has been obtained.

Lockhart believes it is consistent with the Schedule O Power Adjustment Clause for Lockhart to book the revenues associated with the sale of output from the Lower Pacolet Hydroelectric plant to Duke in the manner described above, and that doing so will benefit Lockhart’s customers. However, because the plant was added to Lockhart’s rate base in 2007 – i.e., *before* Lockhart’s Schedule O Power Adjustment Clause was amended in 2011 to provide for such treatment with respect to specifically named and all future generation projects, Lockhart seeks clarification and/or approval from the Commission to treat the revenues associated with the sale of output from the Lower Pacolet Hydroelectric

plant to Duke in the manner described in Lockhart's Schedule O Power Adjustment Clause.

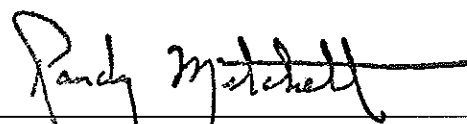
Lockhart requests that the Commission authorize Lockhart to flow through to Lockhart's customers all of the revenues resulting from Lockhart's sale of the generation from the Lower Pacolet Hydro plant to Duke in accordance with Lockhart's currently filed Schedule O Power Adjustment Clause. The Office of Regulatory Staff has no objection to the Company's request. We have reviewed Lockhart's Petition and have found that approval of the Petition is consistent with the public interest. We therefore grant the requested relief.

This Order shall be deemed effective on the date the Commission issued its directive in this matter (August 15, 2012) and shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

  
\_\_\_\_\_  
David A. Wright, Chairman

ATTEST:

  
\_\_\_\_\_  
Randy Mitchell, Vice Chairman  
(SEAL)